

MAKING THE JUMP TO COMMERCIAL CONSTRUCTION

INSIDE THIS EBOOK

Differences between Residential and Commercial Construction	2
Who's Who In Commercial Construction	3
Private vs. Public Projects	4
Construction Delivery Methods	5
CSI Codes	6
The Bidding Process	7
Construction Drawings	10
Bonding And Surety	11

MAKING THE JUMP TO COMMERCIAL CONSTRUCTION



Transitioning from residential to commercial construction can be intimidating

But, that transition can be a great step in sustaining and growing your business. Understanding commercial construction – the players, process and common terms – will help make the jump less daunting.

From the Ground Up has been providing residents in the Greater Orlando Metro area with landscaping services since 2010. “Anything you need done in the residential market, we can do it,” says Joseph Richardson, who is responsible for business development at From the Ground Up.

Business is booming and the company is looking to capitalize on its success by exploring new ways to diversify and increase revenue. As many residential contractors have done, From the Ground Up is trying to move into commercial construction.

However, there are some distinct differences between residential and commercial construction and a steep learning curve to making the transition. “We have no idea where to start in the commercial construction industry,” says Richardson. “It’s a bit daunting, but we think the effort will pay off in the end.”

So, where do you begin? This eBook will highlight the difference between residential and commercial construction during the preconstruction phase as well as outline who’s who in commercial construction, the bidding process and lessons learned from a seasoned general contractor who has successfully transitioned from residential to commercial construction.

RESIDENTIAL vs COMMERCIAL CONSTRUCTION

The pros and cons to consider



ON THE PLUS SIDE,

Commercial construction tends to be more structured, less emotional, and allows for longer or different hours than residential jobs. For contractors like From the Ground Up, commercial work offers the promise of year-round work and a pipeline of contracted jobs. Projects often have bigger pay outs and higher profiles, which could lead to additional jobs. Some contractors focus on niche markets like retail, education, multifamily, healthcare or transportation to become a “go-to” contractor for that type of project.



ON THE NEGATIVE SIDE,

Commercial construction has longer payment schedules, often requires travel and the need to find new subcontractors in new locations. Deadlines are tight and the pace of work is significantly increased. There are more safety regulations, insurance requirements, and accessibility requirements. Some trades, like HVAC, use entirely different systems and materials and jobs are frequently more complicated.

After serving Atlanta’s residential market for nearly 15 years, Randy Glazer, president and owner of Glazer Design & Construction, shifted his focus toward commercial projects. Since then, Randy has navigated the commercial construction industry and built restaurants, offices, gyms, retail shops and health care centers across Atlanta. “Commercial construction moves at a faster pace,” says Glazer. “Materials and details are specified before the project starts, which makes the job more efficient than residential. Residential jobs have a lot more emotion tied to the project.”

WHO'S WHO IN COMMERCIAL CONSTRUCTION



Project Owner and/or Developer

This is the “Client.” They drive the design and construction process and are responsible for securing funds to construct the project.



Design Team

Depending on the scope of a project, the design team may include architects, mechanical engineers, electrical engineers, civil engineers, landscape architects and design consultants. The design team plans, designs and oversees the construction. The project owner or developer hires the design team to create and issue construction drawings and specifications, visit the building site throughout construction, and amend construction drawings if work was not completed according to the plans.



Building Product Manufacturers and Suppliers

BPMs and suppliers provide the materials used in and to construct the project.



Construction Managers

Hired by the project owner/developer, construction managers usually are brought on during the design phase and play an integral role in the design process. They work on behalf of the owner by overseeing the construction project from start to finish. Construction managers usually work for a set fee and do not handle contracts, rather the owner contracts directly with contractors and suppliers while also assuming liability. An exception to this is when the building delivery method is Construction Manager-At-Risk (CMAR).



General Contractors

Contracted directly with the project owner/developer, the general contractor is the primary contractor responsible for day-to-day management and coordination of a construction project. GCs are typically hired by the client and are brought on during the pre-bid and bid process. In most cases, the GC divides the work among specialty contractors called subcontractors. Occasionally, general contractors might self-perform certain trades depending on its capabilities and resources.



Contractors or Subcontractors

The construction professionals responsible for constructing the project.

PRIVATE VS. PUBLIC PROJECTS



Public jobs are required to be posted publicly. Most public projects require performance and payment bonds. They also might set a local prevailing wage for specific trades. These rules will vary by state when the government leading the project is the state government.

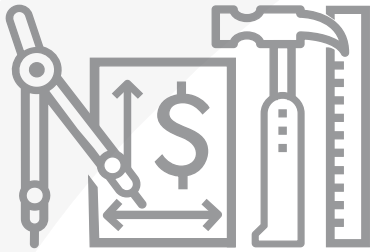


Private projects are led by private individuals and will have their own set of rules and requirements. Private projects are not required to be posted and are frequently contracted through working relationships.

TYPES OF CONSTRUCTION DELIVERY METHODS

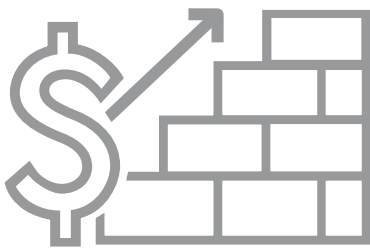
There are three methods that are used to build commercial projects.

The traditional building approach (Design-Bid-Build) has been the most common method of project delivery for the past 100-150 years. However, over the past several years, more and more developers and project owners are using the Design-Build approach vs. the traditional approach.



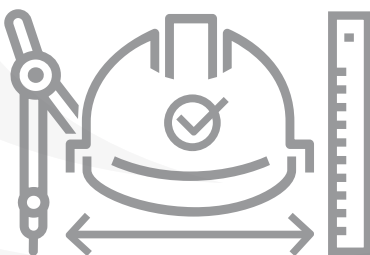
DESIGN-BID-BUILD (TRADITIONAL)

The traditional project delivery method typically involves a design team, a general contractor, construction manager or project manager and subcontractors. Usually the project owner or developer will contract with the design team either through a RFQ or through existing relationships. GCs, PMs and CMs manage and oversee the project's construction. They submit a bid or proposal to the project owner/developer. Subcontractors construct the project and submit their bids to the GC, PM or CM.



CONSTRUCTION MANAGEMENT-AT-RISK

Abbreviated as CMAR, the construction manager commits to deliver the project within a defined schedule and price, either a fixed lump sum or a guaranteed maximum price. The CM provides construction input to the owner during the design phases and becomes the general contractor during the construction phase.



DESIGN-BUILD

This method of project delivery includes one entity (design-builder) and a single contract with the owner to provide both architectural/engineering design services and construction. This method could speed up the completion of a project because the design and construction phases can overlap.

CSI CODES

CSI codes are used to organize specifications and other project information by trade.

There are a few versions of codes in use today. 1995 CSI Codes uses 16 divisions. In 2004, CSI expanded to 50 divisions due to technology changes, new products and new areas of specialization (updates to this list were published in 2010, 2012, 2014 and most recently 2016).

Knowing what codes are most relevant to your business will help you find project leads as well as search project documents, plans and specifications.

Division 00: Procurement and Contracting Req.

Division 01: General Requirements Subgroup

Divisions 02-19: Facility Construction Subgroup

- 02 Existing Conditions
- 03 Concrete
- 04 Masonry
- 05 Metals
- 06 Wood, Plastics, and Composites
- 07 Thermal and Moisture Protection
- 08 Openings
- 09 Finishes
- 10 Specialties
- 11 Equipment
- 12 Furnishings
- 13 Special Construction
- 14 Conveying Equipment
- 15-19 Reserved

Divisions 20 – 29: Facility Services Subgroup

- 20 Reserved
- 21 Fire Suppression
- 22 Plumbing
- 23 Heating, Ventilating, and Air Conditioning (HVAC)
- 24 Reserved
- 25 Integrated Automation

Divisions 20 – 29: Facility Services Subgroup (cont.)

- 26 Electrical
- 27 Communications
- 28 Electronic Safety and Security
- 29 Reserved

Divisions 30 – 39: Site and Infrastructure Subgroup

- 30 Reserved
- 31 Earthwork
- 32 Exterior Improvements
- 33 Utilities
- 34 Transportation
- 35 Waterway and Marine Construction
- 36-39 Reserved

Divisions 40 – 49: Process Equipment Subgroup

- 40 Process Integration
- 41 Material Processing and Handling Equipment
- 42 Process Heating, Cooling, and Drying Equipment
- 43 Process Gas and Liquid Handling, Purification, and Storage Equipment
- 44 Pollution and Waste Control Equipment
- 45 Industry-Specific Manufacturing Equipment
- 46 Water and Wastewater Equipment
- 47 Reserved
- 48 Electrical Power Generation
- 49 Reserved

THE BIDDING PROCESS



Finding
**THE RIGHT
PROJECTS**



Searching
**PROJECT
LEADS**



Developing
**PREQUAL
PROCESS**



SUBMITTING
your BIDS

To build a job, a contractor must first win the job. And putting together a winning bid proposal begins long before the ultimate submission of a bid. It requires a lot of time and effort and involves everything from reading and fully understanding the plans and specifications to accurately estimating costs for labor, materials and equipment.



The right projects

As a first step to delving into commercial construction, Joseph analyzed the business to identify what it is that they do well and the type of commercial projects they should be looking for. “We want to eventually grow to where we can take on the bigger jobs, but for now, we are starting with the jobs we know we can deliver on.”

As you win more and more work, continue analyzing projects to identify the types of projects you do well and profit the most from. Look at key areas such as the clients, project type and location. Look for a pattern based on any of these categories. Which projects were completed on or ahead of schedule? Which ones were completed on or below budget? These are the types of projects your firm should be targeting.

THE BIDDING PROCESS (CONT.)



Project Leads

Most commercial construction leads come from an established relationship or a lead generation service.

Relationships are key to growing and sustaining work. They develop over time and by performing well on contracted work, like consistently finishing a job on time and on budget. In a competitive field like construction, your reputation will often determine whether your business thrives or fails.

When looking to expand or diversify your business, a project lead service can help. All public jobs are posted in local newspapers and/or in industry publications, with an increasing number posted online on industry-related web sites. Many of these services are free but require time to search the multiple sources and websites.

Finding private project leads is a bit more challenging. General contractors may post private job opportunities on their web sites. Local Builders Exchange might be able to provide project leads. However, a project lead service may be your best source and worth the investment, saving you both time and money.

When looking at project leads services, make sure the service provides the types of leads you want in the location(s) you want. Ask for a trial to get to know the software. Talk to others that use that service to see if their experiences (positive and negative) would translate to your business. Are project leads easy to search? Do they include both public and private jobs? Are documents, plans and specifications included, accurate and updated with each project? Is contact information, including a name, number and email provided? What opportunities are available to promote your firm and help create relationships in the industry?



Prequalification Process

Many GCs, project owners and developers establish a prequalification process to ensure contractors bidding and performing work are skilled, competent and capable. This process allows the projects to lower its risk and for GCs to understand who they are working with. Each prequalification process is different and requires different levels of evaluation.

“Hiring the proper subcontractors is essential for any construction project. It can make or break a job,” says Glazer. “Make sure they are licensed to do commercial work and that their insurance covers commercial projects.”

Some areas that might be evaluated are:

- | | |
|----------------------------|-------------------------------|
| • License Information | • Surety Information |
| • Safety Record | • Insurance Information |
| • Civil & Criminal Records | • Project Experience |
| • Financial Condition | • Past Performance Experience |

THE BIDDING PROCESS (CONT.)



Submitting Bids

Prior to submitting a bid, you will want to have as much information about the project as possible. “Learn how to read and understand project drawings and specifications,” suggests Glazer. “When you find a project that might interest you, take the time to know what the project involves and all the details. Visit the site. Attend pre-bid meetings. Talk with the project owner so you know their expectations.”

Many projects will host pre-bid meetings to answer questions regarding plans and specs, site conditions and specific details. This is your best opportunity to get clarification on project requirements and may be your only opportunity to walk the site. Some pre-bid meetings are mandatory and if you fail to attend, your bid submittal will not be accepted.

You are responsible to do your due diligence to ensure you have all pertinent information that is accurate and updated. Like Glazer suggests, fully review plans and specifications. Check for addenda. Research everything from what bonds are required to MWBEs goals. The more information you have, the more complete and competitive your bid will be.

Many times, the bid package will include a bid proposal form, which you should use. If not, you can create your own proposal or find a template online. You will want your bid to stand out against the competition, so make it look professional and include all requested information. It’s also important to accurately estimate your costs for materials and labor.



When you submit a bid, there is basic information you need to include:

- Your company name, address and telephone number
- Name and company who you are submitting your proposal/bid to
- Bid submittal date
- Bid expiration date
- Costs
- Scope of work (often included in the bid package)
- Timeline of work
- Required and supporting documentation (liability insurance, surety bonds, licenses, safety record, etc.)
- Your signature

Construction is incredibly competitive and with razor-thin profit margins, putting together a competitive bid with the most accurate cost estimate is paramount. A long-term bidding strategy targeting the right projects will help you win more work while saving time submitting fewer bids.

CONSTRUCTION DRAWINGS

Frequently referred to as “plans and specifications” (specs for short), these construction documents communicate to the construction team what to build and how to build it.

The drawings show how a project is to be completed: the building’s shape, appearance, and dimensions. The specs describe what materials to use, how to install them, quality standards, etc. Contractors use these documents to calculate materials, labor and project costs. Projects with incomplete construction documents run the risk of increased change orders, cost overruns, delays and disputes.



BONDING AND SURETY

Surety & Bonds ensure project completion within the terms of the contract.

A Contract Surety Bond ensures projects are completed within the terms of the contract. In construction, a surety bond is a three-party contract comprised of the Surety, the Principal (contractor) and the Obligor (owner), with the principal promising to meet its contract obligations.

On privately funded projects, bonds create a smooth transition from construction financing to permanent financing and provide support to the contractor as well as ensure project completion. On public projects, surety bonds support prequalification of contractors, payment protection for subcontractors and contract completion protection for the public. All federal contracts over \$100,000 require performance and payment bonds as part of the Miller Act.

Surety bonds are issued by banks and insurance companies. Generally, contractors will pay a percentage of the bond amount, which is based largely on their financial strength. However, some contract bonds require you to pay a percentage of the full contract amount. Industry experience, strong personal credit and business/personal financials will help lower your bond rate.

In commercial construction, there are three types of bonds:



Bid Bonds provide financial protection to an obligee if a bidder is awarded a contract, but fails to sign the contract. The bid bond process helps to screen out unqualified bidders and frequently a requirement to bid.



Performance Bonds protect the owner from financial loss in the event the contractor fails to deliver on contract. If the owner (obligee) declares the contractor (principal) in default and terminates the contract, it can call on the surety to meet the surety's obligations under the bond.



Payment Bonds assure the contractor will pay certain workers, subcontractors and material suppliers.

How to qualify for a surety bond

Guidelines and qualifications to qualify for a surety bond vary but most agree having a good record performance and being reputable is expected. Here are a few other items they'll consider:

- Financial statements
- Credit history
- Vendor/Subcontractor history
- Relationship with your banker
- Longevity: *Will you be around to finish the job?*
- Capacity: *Can you handle the job?*

STILL THINKING ABOUT MAKING THE JUMP?

Knowing where to start is the challenge, however familiarizing yourself with the basic information involved in commercial construction will give you a solid foundation.

Competition in commercial construction is fierce, with construction startups having one of the highest failure rate. According to the Census Bureau, nearly two-thirds of construction businesses fail within the first five years.

Along with risk comes opportunity and there is tremendous opportunity in commercial construction. The industry is growing at unprecedented rates. According to SageWorks, seven of the top 10 industries with the highest sales growth rates are related to construction.

When weighing the decision to transition or to start a commercial construction company, you need to balance the risks with the opportunities. Next develop a strategy and understand who you are, what you do well and how to profit from that to help you determine which opportunities to pursue.

Follow these steps when transitioning your business into commercial construction:



1. **Find a mentor.** Find someone who is knowledgeable of commercial construction and can help you understand the ins and outs of the industry, giving you tips to get started.



2. **Get licenses, bonded and insured.** Protect yourself, your business and your clients by ensuring you have the right licenses and permits, business insurance and surety bonds.



3. **Secure financing.** One of their largest challenges for contractors is cash flow and having access to construction financing can give you the flexibility to take on new projects and grow your business.



4. **Familiarize yourself with industry standards and regulations.** The construction industry is heavily regulated. From energy efficiency standards to workplace safety regulations, understanding these regulations before construction will help prevent wasted time and unnecessary expenses.



5. **Network with suppliers, contractors, developers and industry professionals.** Relationships drive the construction industry. Become involved in local professional associations and attend industry events.



6. **Stock your toolbox with the right tools.** Having the right tools in your toolbox is essential for any job. Running a construction business is no different. The right software solution can automate and streamline various process, saving you time and money.